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C O N F I D E N T I A L SECTION 01 OF 02 ROME 000620

SIPDIS

DEFENSE FOR DEPSECDEF AND USD AT&L

E.O. 12958: DECL: 02/07/2012

TAGS: [MARR](#) [EAIR](#) [PGOV](#) [PREL](#) [EAIR](#) [PGOV](#) [PREL](#) [IT](#) [ITMARR](#)

SUBJECT: JSF/ITALY: POSITIVE OUTLOOK FOR MOU BUT ECONOMIC CASE NOT MADE

REF: A. (A) 01 ROME 6545

[B](#). (B) ROME 474

CLASSIFIED BY: ECONOMIC MINISTER MARGARET DEAN  
FOR REASONS 1.5 (B) AND (D).

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[1](#)1. (C) SUMMARY: WHILE PRIME MINISTER BERLUSCONI IS LIKELY TO SIGN ITALY UP FOR THE JOINT STRIKE FIGHTER (JSF) PROGRAM, THE PERCEPTION IN NON-DEFENSE MINISTRIES IS OF AN UNEQUAL AGREEMENT, WITH INSUFFICIENT ECONOMIC/INDUSTRIAL BENEFITS FOR ITALY. ACCORDING TO MINISTRY OF PRODUCTIVE ACTIVITIES AEROSPACE DIRECTOR (PROTECT) CUZZONI, NO ATTEMPT HAS BEEN MADE BY THE MINISTRY OF DEFENSE TO DEMONSTRATE THE ECONOMIC OR INDUSTRIAL BENEFITS OF JSF FOR ITALY, LEAVING A PERCEPTION THAT THE CASE CANNOT BE MADE. ALENIA'S ZAPPA HAS REPORTEDLY GAINED SUPPORT FROM PRESIDENT CIAMPI AND NATIONAL ARMAMENTS DIRECTOR ADMIRAL DI PAOLA TO PRESS THE U.S. FOR A BETTER DEAL (DURING DI PAOLA'S VISIT TO WASHINGTON FEB. 12-13). CUZZONI DOUBTS THAT THE PENDING BILATERAL MOU WILL BE DERAILED, BUT FEARED POLITICAL FALLOUT FOR BERLUSCONI IF THE CENTER-LEFT PAINTS HIM AS HAVING SIGNED AN UNEQUAL ACCORD AGAINST ITALY'S ECONOMIC INTERESTS. END SUMMARY.

[1](#)2. (C) AT LUNCH FEBRUARY 6 WITH ECON COUNSELOR, ALFREDO CUZZONI (PROTECT), AEROSPACE DIRECTOR FOR THE MINISTRY OF PRODUCTIVE ACTIVITIES, SAID THAT PRESIDENT CIAMPI HAD AGREED TO TAKE ON THE PRIME MINISTER REGARDING JSF ON BEHALF OF ITALIAN INDUSTRY (AND ALENIA IN PARTICULAR). THIS WOULD BE PART OF A COMBINED STRATEGY TO PRESS FOR A BETTER DEAL -- CIAMPI AT THE HIGHEST POLITICAL LEVEL, NATIONAL ARMAMENTS DIRECTOR ADMIRAL DI PAOLA RAISING THE ISSUE WITH EMBASSY AND IN WASHINGTON MEETINGS ON FEBRUARY 12-13, AND ALENIA CEO ZAPPA CONTINUING TO PRESS LOCKHEED MARTIN. ZAPPA HAS REPORTEDLY CONVINCED DI PAOLA AND CIAMPI THAT -- IF THE GOI REFUSES TO SIGN A BILATERAL JSF MOU UNTIL ALENIA IS SATISFIED WITH ITS DEAL -- THE USG WILL HAVE NO CHOICE BUT TO LEAN ON LOCKHEED TO BETTER ITS TERMS.

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[1](#)3. (C) ECON COUNSELOR POINTED OUT A NUMBER OF ADVANTAGES TO ITALY THOUGH JSF PARTICIPATION, INCLUDING EXPOSURE TO NEW MANUFACTURING, DESIGN AND MANAGEMENT TECHNOLOGY, LONG TERM ITALIAN JOBS AND REVENUES BASED ON THE GLOBAL PRODUCTION RUN RATHER THAN JUST THE ITALIAN RUN, BENEFITS TO ITALIAN SMES AS WELL AS ALENIA AND FIATAVIO. SHE ALSO DISCUSSED THE IMPORTANCE OF PUTTING ASIDE THE OFFSETS/WORKSHARE MENTALITY, AND LOOKING TOWARD THE BENEFITS OF MARKET/PERFORMANCE BASED CONTRACTS. CUZZONI RESPONDED THAT ITALY COULD ONLY COUNT ON WRITTEN GUARANTEES, THAT STATEMENTS OF POSSIBLE FUTURE BENEFITS HAD NO VALUE WITHOUT GUARANTEES AND THAT, IN HIS MANY YEARS IN THIS AREA HE HAD SEEN U.S. PROMISES FADE ON MANY OTHER DEALS.

[1](#)4. (C) WHEN ECON COUNSELOR EXPLAINED THAT THE BILATERAL MOU MUST BE SIGNED BEFORE THE INDUSTRY CONTRACTS ARE SIGNED, CUZZONI WAS SURPRISED. HE NOTED THAT NEITHER DI PAOLO NOR DEFENSE NOR ZAPPA HAD TOLD HIM THIS. "IN THAT CASE, WE HAVE NO LEVERAGE. WE HAVE TO ACCEPT WHAT IS ON THE TABLE," HE STATED.

[1](#)5. (C) CUZZONI NOTED THAT HE, HIS MINISTER (MARZANO) AND MINISTER TREMONTI OF FINANCE ARE STILL SEEKING SOLID SUPPORTING DATA ON ECONOMIC BENEFITS FROM JSF FOR ITALY (REFTEL A). THE ITALIAN DEFENSE MINISTRY IS SOLD ON THE MILITARY BENEFITS, BUT NO ONE HAS CRITICALLY EXAMINED THE INDUSTRIAL/ECONOMIC BENEFITS FROM THIS ONE BILLION DOLLAR GOI INVESTMENT. ABSENT ANY SUCH CASE BEING MADE, THE PRESUMPTION IN THE MINISTRY OF PRODUCTIVE ACTIVITIES IS THAT THE CASE CANNOT BE MADE. AT THE SAME TIME, ALENIA AND FIAT AVIO

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OFFICIALS ARE TELLING THE GOI THAT THE DEAL IS NOT SUFFICIENTLY ATTRACTIVE. GOI OFFICIALS BELIEVE THAT THE UK SIDE LETTER OFFERED SUBSTANTIALLY BETTER TERMS FOR UK INDUSTRY.

[1](#)6. (C) NONETHELESS, CUZZONI NOW THINKS THAT A POLITICAL

DECISION IN FAVOR OF JSF IS LIKELY. HE BELIEVES THAT CIAMPI AND ZAPPA WILL TRY TO DERAIL IT, BUT THAT BERLUSCONI WILL DECIDE FOR JSF IN THE END. HE IS CONCERNED, HOWEVER, THAT CIAMPI AND ZAPPA MIGHT CREATE A PARLIAMENTARY AND PUBLIC PERCEPTION THAT THE PRIME MINISTER HAS SIGNED AN UNEQUAL AGREEMENT WITH LITTLE ECONOMIC BENEFIT FOR ITALY IN TERMS OF TECHNOLOGY, JOBS OR MONEY.

17. (C) COMMENT: ABSENT ANY INTERAGENCY PROCESS IN THE INTERNAL ITALIAN DISCUSSIONS, THE MINISTRY OF DEFENSE HAS NOT EXPLAINED, AND APPARENTLY CANNOT EXPLAIN, THE COST/BENEFIT TO ITALY OF JSF PARTICIPATION. ZAPPA (AND POSSIBLY ALSO FIAT) HAS ARGUED TIRELESSLY THAT THE DEAL IS BAD FOR ITALY. DEFENSE MINISTRY OFFICIALS SIMPLY CONVEY THEIR ENTHUSIASM FOR THE JSF. THE EMBASSY HAS TALKED TO OTHER MINISTRIES, STARTING AT THE AMBASSADORIAL LEVEL, TO EXPLAIN THE POTENTIAL BENEFITS, INCLUDING THOSE BEYOND ZAPPA'S ALENIA. CUZZONI WAS, FOR EXAMPLE, COMPLETELY UNAWARE OF THE POTENTIAL FOR

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ACTION EUR-00

INFO	LOG-00	AID-00	ACQ-00	CEA-01	CIAE-00	COME-00	CTME-00
	DOPE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00	FAAE-00
	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01	L-00
	AC-01	NSAE-00	NSCE-00	OES-01	OMB-01	OPIC-01	PC-01
	PM-00	ACE-00	SP-00	SSO-00	SS-00	STR-00	TRSE-00
	USIE-00	EPAE-00	SNIS-00	NISC-00	PMB-00	DSCC-00	DRL-02
	G-00	SAS-00	/011W				

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FIAT AVIO TO PRODUCE ENGINE GEARBOXES FOR THE ENTIRE WORLD JSF PRODUCTION RUN. HE EXPRESSED INITIAL DISBELIEF, THEN RESPONDED THAT THIS WAS A GREAT BENEFIT AND WAS SURPRISED THAT HE HAD NOT BEEN TOLD OF IT BEFORE. SIMILARLY, HE WAS IMPRESSED WITH THE LIST OF POTENTIAL ITALIAN SMES WITH WHICH  
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LOCKHEED MARTIN WAS CONSIDERING CONTRACTS.  
SEMBLER

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